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This study is a conceptual paper that aims to determine the effect of independent commissioners, audit committees, financial distress, and company size on the integrity of financial statements. Previous theoretical studies have shown that the mechanism of good corporate governance, financial distress, and company size can affect the integrity of financial statements. From theoretical discussions and previous research, conclusions are obtained while independent commissioners, audit committees, financial distress, and company size on the integrity of financial statements have a positive effect. This study uses secondary data in the form of annual financial statements of financial sector companies listed on the Indonesia Stock Exchange (BEI) from 2012 to 2018. The renewal in this study is the mechanism of good corporate governance that is used in this study only independent commissioners and audit committees. In addition, the year of research and the sample of research to be studied differ from previous studies.

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Abstract

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Introduction

Financial statements are a structured presentation of an entity's financial position and performance. The purpose of financial statements is to provide information about the financial position, performance, and changes in the company's financial position in a certain period. Financial statements are also a form of management's responsibility for the use of various resources that management has entrusted to them. Financial statements have several qualitative characteristics such as *Relevance*, *Reliability*, and *Objective*. Financial statement information can be said to have high integrity if it can influence users' decisions by strengthening or changing decision-makers, trustworthy, free from misstatements, causing users to rely on that information. Financial statement information is said to have integrity if it is presented fairly and honestly, informs the actual situation (Amrulloh et al, 2016). The case that occurred in May 2018 happened to a finance company under the auspices of Columbia Group, PT Sunprima Nusantara Financing (SNP Finance). The company's debt rating has changed drastically from stable to idSD (selective default) because one of the Medium Term Notes (MTN) coupons issued by SNP failed to pay. As a result, the Financial Services Authority (OJK) froze SNP business activities because the company failed to pay MTN interest of Rp6.75 billion. It is suspected that SNP Finance did not submit financial reports correctly, aka fictitious. Until finally, the IDX and the Indonesian Akutan Association (IAI) proposed that the financial director as the organizer of the financial statements must have certification as an *auditee* with the criteria of the certification, namely independent and not having family ties. The IDX assesses that certification is *auditee* quite important to minimize errors in reporting financial performance (www.tirto.id). From the above phenomena, it can be seen that PT Sunprima Nusantara Financing (SNP *Finance*) raises distrust of users of financial statements and questions the integrity of the financial statements presented. In the case of manipulation, it is evident that there is involvement of parties in, such as *Chief Financial Officer* (CFO), audit committee, internal auditor, in committing accounting fraud. This raises the question of how corporate governance and widely distributed ownership patterns better known as *corporate governance* so as not to be able to minimize management dishonesty in the presentation of financial statements. The accounting scandal that marks good *corporate governance* has not yet been applied by the company.

Research Issues

This paper is a conceptual paper that discusses the issue of how to assess the integrity of financial statements in Indonesia with the influence of independent commissioners, audit committees, *financial distress,* and company size. This paper will also provide a conceptual framework on which to base investment policymaking by looking at the quality of a company's financial statements. This research is expected to be able to contribute to minimizing the dishonesty of company management in the presentation of financial statements so that there will not be many companies that take manipulative actions that can harm investors and creditors.

Literature

Agency Theory

Agency theory or agency theory to explain the relationship between the two parties, namely the owner *(principal)*and the manager (*agent*). Jensen and Meckling (1976) stated that the agency relationship arises because of a contract between the *principal* and *agent* by delegating some decision-making authority to the *agent*. The basic assumption of human nature, managers as humans will act *opportunistic,* namely prioritizing his personal interests. Managers are required to present disclosure of accounting information to the *principal* through financial statements (Istiantoro et al, 2017). Financial reports are useful for internal and external users. An imbalance regarding the mastery of this information can trigger the emergence of a condition called information asymmetry (*information asymmetry*). The emergence of information asymmetry between management and owners can open opportunities for managers to take action to manipulate financial statements in order to deceive owners about the company's economic performance.

The Integrity of Financial Statements

The integrity of financial statements as a measure of the extent to which financial statements are presented shows honest and true information so that it does not mislead users in making decisions (Istiantoro et al, 2017). In *Statement of Financial Accounting Concept* (SFAC) No. 8 of 2010 concerning the *Conceptual*

Framework of Financial Reporting, there are two things that become primary quality in a financial report, namely the main quality, consisting of *relevance, faithfulness* and supporting quality consisting of *comparability, variability, timeliness,* and *understandability*. Financial statements that have high integrity must meet these main and supporting qualities. Accounting information that has high integrity can be used because of its honest presentation so that it allows users of accounting information to depend on that information, so it has the ability to influence the decisions of users of financial statements. One of the principles adopted in the financial reporting process is the principle of conservatism. Conservatism is a cautious reaction to uncertainties so that the uncertainties and risks associated with a business situation can be adequately considered. These uncertainties and risks must be reflected in the financial statements so that their predicted and neutral values can be corrected. Prudential based reporting will provide the best benefits for all users of financial statements (Savitri, 2016).

Good Corporate Governance

Corporate Governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of commissioners, shareholders, and other *stakeholders that* also provide a structure that facilitates the determination of the objectives of a company, and as a means for determining techniques performance monitoring (Hardianingsih, 2010).

a. **Audit Committee**

   The audit committee is a committee formed by a board of directors whose job is to carry out independent oversight of the financial reporting and external audit processes. This body has the duty to assist the board of commissioners to ensure that financial statements are fairly presented in accordance with generally accepted accounting principles, the internal control structure of the company is well implemented, the implementation of internal and external audits is carried out in accordance with applicable auditing standards (Istiantoro et al, 2017).

b. **Independent Commissioner**

   The independent commissioner is a body within a company that usually consists of an independent board of commissioners from outside the company whose function is to assess the overall and overall performance of the company. The existence of an independent commissioner in a company can balance in decision making, especially in the context of protection of minority shareholders and other related parties.

Financial Distress

Financial distress is a stage of decline in financial conditions experienced by a company, which occurred before bankruptcy or liquidation. This condition is generally characterized by, among others, delays in shipping, declining product quality, and postponement of bill payments from banks (Junaidi, 2016).

The effect of independent commissioners on the integrity of financial statements

Independent boards of commissioners, in general, have better supervision of management, thereby reducing the possibility of fraud in presenting financial reports. The results of research by Gusliana et al (2016) show that independent commissioners influence the integrity of financial statements.

H_1: Independent commissioners have a positive effect on the integrity of financial statements

The effect of the audit committee on the integrity of financial statements

The audit committee is tasked with assisting the board of commissioners to monitor the financial reporting process by management to increase the credibility of the financial statements. The audit committee also has the duty to provide formal communication between the board, management, external auditors and internal auditors. The results of Khamawardila's research (2016) show that the audit committee influences the integrity of the financial statements.

H_2 : The Audit Committee has a positive effect on the integrity of financial statements

The effect of *financial distress* on the integrity of financial

statements Positive accounting theory states that managers will tend to reduce the level of accounting conservatism if the company experiences a high level of financial difficulties because if there is *financial distress* indicates poor management performance and will result in management change. Indrasari et al (2016) research results show that *financial distress* does not affect the integrity of financial statements.

H_3 : *Financial distress* negatively affects the integrity of financial statements

The effect of company size on the integrity of financial statements

Company size may affect the integrity of the financial statements. Large companies convey more information about the company's financial statements compared to smaller companies. Small companies may not have the resources to gather and display extensive information on their financial statements because many activities involve costs. The results of Fajaryani's study (2015) show that company size has a positive influence on the integrity of financial statements.

H_4 : Company size has a positive effect on the integrity of financial statements

Discussion

Independent commissioners are the best position to carry out functions in *monitoring* order to create companies that meet *good corporate governance*. Independent commissioners generally have better oversight of management, thereby reducing the possibility of fraud in presenting financial reports by management. In addition, the audit committee is tasked with assisting the board of commissioners to monitor the financial reporting process by management to increase the credibility of financial statements. The existence of formal communication can guarantee a good internal and external audit process, thereby increasing the accuracy of financial statements and then increasing confidence in financial statements. *Financial distress* indicates poor management performance and will result in management change. In addition, it illustrates the company's inability to pay off obligations incurred by the company before bankruptcy. Therefore managers will reduce the level of conservatism. Accounting conservatism indicates the integrity of financial statements due to avoid manipulation and increase integrity. Company size may affect the integrity of the financial statements. Large companies will face greater demands from *stakeholders* to present reports with high integrity. In addition, the many highlights of large companies encourage management to disclose information honestly. Therefore, large companies will present financial statements with high integrity.

Conclusion

The right strategy in preventing data manipulation actions in the financial statements can be done with the first preventive effort, namely increasing the *corporate governance of* a company. By further increasing the level of supervision carried out by independent commissioners assisted by the company's audit committee. Corporate governance and widely distributed ownership patterns can minimize management dishonesty in the presentation of financial statements. The size of the company in the spotlight in the presentation of financial statements with integrity. The larger the size of the company, usually the information available to investors in making decisions regarding investment in the company's shares more and more large companies more attention by the public so that they will be more careful in financial reporting, in contrast to small companies that tend to want to show the condition of the company that always performs well so that investors invest their capital in the company.

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